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FY 2011 NEW STARTS FINANCIAL ASSESSMENT

PROJECT: Honolulu High Capacity Transit Corridor Project
PROJECT LOCATION: Honolulu, Hawaii
REVIEW DATE: September 2, 2009

FINANCIAL RATINGS SUMMARY

Comparison of FY 2009, FY 2010 and FY 2011 Ratings

(1 = Low; 2 = Medium-Low; 3 = Medium; 4 = Medium-High; 5 = High)

	Overall Financial Rating	Non-Section 5309 New Starts Share Rating	Project Capital Financial Plan Rating	Project Operating Financial Plan Rating
FY 2009				
FY 2010				
FY 2011	3	5	3	3
Change	—	—	—	—

Capital Finance Plan

	Capital Condition	Commitment of Capital Funds	Capital Financial Capacity/ Cost Estimates and Planning Assumptions
FY 2009			
FY 2010			
FY 2011	3	5	1
Change	—	—	—

Operating Finance Plan

	Operating Condition	Commitment of O&M Funds	Operating Financial Capacity/ O&M Cost Estimates and Assumptions
FY 2009			
FY 2010			
FY 2011	3	5	2
Change	—	—	—

New Information/Changes

Factor	General Comments
Non-Section 5309 New Starts Share	<i>High</i> rating assigned. Non-Section 5309 New Starts funds are proposed to be 71 percent of the total project cost, which qualifies for a <i>High</i> rating.
Project Capital Financial Plan	<i>Medium</i> rating assigned. The project financial plan presents very little capacity to absorb cost increases or funding shortfalls, and has potentially significant revenue risks.
Capital Condition	<i>Medium</i> rating assigned. Reflects the average age of the bus fleet (9.2 years) and the bond ratings of the City and County of Honolulu (double-A).
Commitment of Funds	<i>High</i> rating assigned. All non-Section 5309 funds are committed, though the funds may not be available in the amount forecasted.
Capital Cost Estimates, Assumptions and Financial Capacity	<i>Low</i> rating assigned. Reflects concerns about revenues, debt capacity, and the City's capacity to absorb potentially large revenue risks.
Project Operating Financial Plan	<i>Medium</i> rating assigned. Reflects good current operating condition and commitment of funds.
Operating Condition	<i>Medium</i> rating. Ratio of current assets to current liabilities is 1.32.
Commitment of Funds	<i>High</i> rating assigned. All operating funds are from City-controlled sources. However, due to the substantial increase in operating subsidies that are forecasted, with no new source of funds identified to cover the increase, the forecast assumes a much higher rate of transfers from other City funds, the impacts of which are not identified.
O&M Cost Estimates, Assumptions, and Financial Capacity	<i>Medium-Low</i> rating assigned. Unit cost growth is optimistic relative to historical experience. It is questionable whether the operating subsidy required by the project could be absorbed by the City without tangible cuts in City services or increases in other taxes. O&M costs for the project may be understated.

PROJECT SUMMARY

PROJECT DESCRIPTION

The Honolulu High Capacity Transit Corridor Project (“the Project”) is being undertaken by the City and County of Honolulu (“the City”). The corridor stretches across southern O‘ahu, from Kapolei in the west to Ala Moana Center in the east. The locally preferred alternative (LPA) for the project, adopted in 2006, uses a 3rd-rail electrified rail technology throughout the corridor.

The Project is a 20.2-mile light rail line extending from East Kapolei in the west to the Ala Moana Center in the east. The alignment would include 21 stations and will be a dual guideway with 19.5 miles elevated and 0.7 miles constructed at-grade. The Project is expected to be constructed in phases, each with similar construction activities. Phase I will be the portion between East Kapolei and Pearl Highlands, and will also include construction of the vehicle maintenance and storage facility. The remainder of the Project (Phase II) would be built in three overlapping sub-phases continuing Koko Head from Pearl Highlands first to Aloha Stadium, then to Middle Street, and finally to Ala Moana Center. Individual construction phases would be opened as they are completed. The entire Project is scheduled to be in operation in FY2019. Conceptual design for the Project continues and work on the first construction phase is anticipated to begin in early calendar year 2010. Cost estimates for the Project presented in this Financial Plan assume that the Project is a steel wheel on steel rail technology operating on a combination of at-grade and elevated portions of guideway using high floor vehicles and a barrier-free fare collection system. While these assumptions could change as the project evolves, the cost estimates that follow are based on these project characteristics.

In the financial plan, the Project is assumed to open in March 2019. The City’s fiscal year (FY) ends in June, thus the first full year of operation of the Project would be in FY 2020. The Project is estimated to cost \$5,348 million in year-of-expenditure (YOE) dollars. The Project is forecasted to carry 97,000 daily trips in its opening year and 116,000 trips in 2030.

PROJECT DEVELOPMENT PHASE

- The City is requesting entry of the Project into Preliminary Engineering.
- The schedule presented in the August 2009 financial plan indicates:
 - Completion of NEPA in late 2009
 - FTA Record of Decision in 2009.
 - Execute full funding grant agreement in early 2011.
 - Begin full-length Revenue Operation in 2019.

LOCAL PROJECT SPONSOR

The City and County of Honolulu, referred to as the City in the rest of this document.

AGENCY DESCRIPTION

The City is the project sponsor, through its Department of Transportation Services (DTS).

The City is a body politic and corporate, as provided in Section 1-101 of the Charter of the City and County of Honolulu 1973, as amended (RCH). The City's governmental structure consists of the Legislative Branch and the Executive Branch. The legislative power of the City is vested in and exercised by an elected nine-member City Council whose terms are staggered and limited to no more than two consecutive four-year terms. The executive power of the City is vested in and exercised by an elected Mayor, whose term is limited to no more than two consecutive full four-year terms. The City is authorized under Chapter 51 of the Hawai'i Revised Statutes to "acquire, condemn, purchase, lease, construct, extend, own, maintain, and operate mass transit systems, including, without being limited to, motor buses, street railroads, fixed rail facilities such as monorails or subways, whether surface, subsurface, or elevated, taxis, and other forms of transportation for hire for passengers and their personal baggage." This authority may be carried out either directly, jointly, or under contract with private parties. The City is the designated recipient of FTA Urbanized Area Formula Funds apportioned to the Honolulu and Kailua-Kaneohe urbanized areas.

The DTS is authorized under RCH Chapter 17 and consists of an appointed DTS Director who is the administrative head of the department, a transportation commission, and necessary staff. The DTS Director's powers, duties, and functions include planning, operating, and maintaining transportation systems, including transit. The DTS Director reports to the City Managing Director who is the principal administrative aide to the Mayor. Section 2-12.1 of the Revised Ordinances of Honolulu, as amended (ROH), assigns to the DTS Director the responsibility of planning, designing, operating, and maintaining the automated fixed guideway rapid transit system and for planning, administering, and coordinating those programs and projects that are proposed to be funded under the Federal Transit Act, as amended.

The DTS' Rapid Transit Division will be responsible for planning, designing, implementing, and operating the Project. The Public Transit Division of DTS is responsible for the City's fixed route and paratransit services operated under contract by O'ahu Transit Services, Inc. The City's fixed route bus system is referred to as "TheBus." TheBus serves the entire island of O'ahu with 91 bus routes, and carries more than 70 million unlinked passenger trips each year. O'ahu Transit Services operates the City's paratransit services, referred to as the "TheHandi-Van." TheHandi-Van serves over 13,000 eligible customers, and carries 750,000 unlinked passenger trips per year.

The local funding source for the Project is a one-half percent (0.5 percent) surcharge on the State of Hawai'i's General Excise Tax and Use (GET), first authorized in 2005, and adopted by the City in Ordinance No. 05-027, which established a 0.5 percent GET surcharge. The GET surcharge commenced on January 1, 2007, and will be levied through December 31, 2022. Business activities that are subject to the 4% GE tax rate, such as retailing of goods and services, contracting, renting real property or tangible personal property, and interest income, are also subject to the GET surcharge. This source of revenue is to be exclusively used for operating and/or capital expenditures of a fixed guideway system. The Hawai'i State Department of Taxation collects the GET surcharge and remits it to the City, net of a 10 percent administrative charge.

PROJECT FINANCIAL SUMMARY

Total capital cost (\$YOE)		\$ 5,347,681,000
		(including \$290,300,000 in financing charges)
Section 5309 New Starts Share	\$ 1,550,000,000	29.0%
Non-Section 5309 New Starts Share	\$ 3,797,681,000	71.0%
Annual project O&M costs (first full year of operation [FY 2020])		\$ 85,908,000
Total systemwide annual O&M costs (current year)		\$ 189,513,000
Total systemwide annual O&M costs (first full year of New Starts Operation)		\$ 356,951,000

REGIONAL ECONOMIC CONDITIONS AND FORECASTS

Honolulu County, comprising the entire island of Oahu, has traditionally experienced steady population and employment growth.

Honolulu County population increased at roughly 0.4 percent annually between 1990 and 2008, according to recent Census Bureau estimates. The annual growth rate since 2000 mirrored this longer-term trend. A population forecast was not submitted with the financial plan. However, the Hawaii Department of Business, Economic Development & Tourism (DBEDT) forecasts 0.55 percent annual population growth for Honolulu County through 2030.

Employment likewise experienced steady growth until recently. Between 1999 and 2008, employment (as reported by the Bureau of Labor Statistics) grew at 0.6 percent annually. Employment peaked in March 2008, at about 442,000, but declined to about 436,000 as of July 2009. The current unemployment rate – 6.1 percent – is one of the lowest metropolitan area unemployment rates in the country. At peak employment in March 2008, the unemployment rate was just 2.6 percent.

The financial plan includes a forecast of the General Excise and Use Tax (referred to as the GET) that is the primary source of capital funding for the Project. After a period of sustained growth, GET revenues experienced year-over-year losses in four of the past five quarters. The GET forecast included in the financial plan is more bullish than a recent forecast prepared by the Council on Revenues (COR), a group that advises the Governor of Hawaii. The GET forecast is analyzed in some detail in the Capital Financial Plan section of this report.

IMPLEMENTATION ISSUES

- **Other Planned Capital Projects in the Region.** No other projects were identified as being dependent on or linked to the Project.
- **Legislation, Referenda, or Planning Approvals Needed.** The City intends to request a letter of no prejudice (LONP) from FTA so that it can commence construction of Phase 1 of the Project prior to execution of the FFGA. The total cost of Phase 1 is \$1,567 million, or approximately 29 percent of total project cost. The City plans to award design-build contracts prior to the FFGA for guideway, maintenance and service facilities, and systems & vehicles, as well as a design contract for stations.
- **Innovative Financing Techniques Under Consideration.** None are being considered for this project.

FINANCIAL RATINGS

Assessment of Local Financial Commitment

High

Proposed Non-Section 5309 New Starts Share of Project Capital Costs

\$ 3,797,681,000

71.0 %

The proposed Non-Section 5309 share exceeds the threshold of 65 percent for a *High* rating.

ASSESSMENT OF CAPITAL FINANCE PLAN

Current Capital Condition of Agency

Medium

The average age of the City's bus fleet is 9.2 years (New Starts Finance Template, dated 8/19/09). The average age of the demand-responsive fleet is 4.7 years (New Starts Finance Template, 8/19/09). The bus fleet age was the oldest recorded in the time period researched with NTD data (2003-2008). The demand-responsive fleet age was slightly higher than the average over that period (4.6 years).

The latest City general obligation bond issue (May 2009) was rated AA by Standard & Poor's, Aa2 by Moody's, and AA by Fitch. No changes in the City's ratings have been reported since.

The capital condition rating based solely on fleet age would be *Medium-Low*, while the capital condition rating based solely on bond ratings would be *Medium-High*. Because this is more than a one-step difference, the rating is an average of the two, or *Medium*.

Commitment of Capital Funds

High

Table 1 presents the sources of capital funds for the project. Ninety-five point three percent of the funding sources are "committed." This exceeds the threshold of fifty percent for a *High* rating for a project in preliminary engineering.

The non-New Starts funds consist of five sources, which in order of magnitude are: (i) GET surcharge revenues, \$2,442.4 million; (ii) general obligation bonds issued by the City that would be repaid from GET surcharge revenues, \$1,042.7 million; (iii) FTA Section 5307 Urbanized Area funds, \$300.7 million; (iv) interest earned on cash balances, \$7.9 million; and (v) American Reinvestment and Recovery Act (ARRA) of 2009 funds, \$4.0 million. The GET surcharge revenues (64.3 percent of non-New Starts funds) are considered "committed"; these funds are under the direct control of the City and County of Honolulu for the purposes of this Project. Since the GET surcharge revenues will be used to pay Project-related debt service, and will be the sole basis for interest earnings, these latter two sources are also considered "committed." The FTA 5307 Urbanized Area funds are considered "committed" through the end of the current six-year programming period, ending in the City's fiscal year 2014. During that period, the Section 5307 funds to be applied to the project total \$127.5 million. The remaining \$173.2 million in Section 5307 funds are considered "planned."

The GET surcharge revenues derive from a 0.5 percent surcharge on the 4 percent general excise tax levied by the State of Hawaii. The surcharge applies only to taxable activities in Honolulu County. The tax commenced in January 2007 and will sunset in December 2022. The revenues from the surcharge are to be exclusively used for operating and/or capital expenditures of a fixed guideway system. The GET

surcharge revenues cited in Table 1 include the carry-forward balance at the beginning of fiscal year (FY) 2009 (\$153 million) and the revenues forecasted to be collected in fiscal years 2009-2019, less \$62 million expended in FY 2009 prior to approval to enter preliminary engineering.

The bonds to be issued for the project are contemplated to be general obligation (G.O.) bonds issued by the City. The amount of bonds shown in Table 1 (\$1,042,740) is the outstanding principal when the project is completed in 2019. The City plans to issue another \$811,973,000 in bonds that would be retired during the construction period. The borrowing plan also includes \$500 million in short-term debt. This debt is not shown as a source of funds because it will be retired or refunded before the end of the construction period.

Debt service on the bonds would be paid from GET surcharge revenues. The bonds would be issued every year beginning in fiscal year 2013 (ending June) and terminating in FY 2019. The bonds are to be fully repaid in FY 2023. The GET surcharge terminates in December 2022. Due to a lag in collecting the revenue, cash income from the GET surcharge is anticipated to continue to flow to the project through the end of March 2023 (i.e., the third quarter of FY 2023).

The amount of G.O. debt to be issued is within the City's "affordability guidelines" for self-supporting G.O. bonds. These guidelines limit G.O. debt service to 20 percent of the City's total operating budget. In the final year of construction (FY 2019), G.O. debt service, including the bonds issued for the Project, is forecasted to be 19.4 percent of the City operating budget.

In prior ratings for the Project, the City's debt capacity was more constrained because a greater amount of debt was planned. The September 2008 financial plan, for example, included \$2,244 million in bond proceeds, whereas the current financial plan (August 2009) includes \$1,854 in bond proceeds. The amount of long-term debt to be issued was reduced, compared to the prior plan, by including \$500 million in short-term debt (to which the above affordability guidelines do not apply) and by including FTA Section 5307 funds in the Project financing plan. These changes, along with an increase in New Starts funding, offset the effects of a lower revenue forecast and an increase in Project cost, thereby reducing the need for long-term G.O. bonds, and thus reducing total G.O. debt service to a point below the affordability threshold.

Capital Cost Estimates, Planning Assumptions, and Financial Capacity

Low

The capital cost estimates and schedule, Federal funding assumptions, financing costs, and financial capacity analyses for the project are presented below.

Project cost and schedule

The Project Management Oversight Contractor (PMOC) – Jacobs Engineering – issued a spot report in July 2009, presenting its assessment of the Project's cost and schedule risk. The PMOC recommended an increase of \$116.8 million in the capital cost of the project, bringing the total capital cost (at that time) to \$5,288 million. The PMOC noted that the revised total includes \$1.219 billion (YOE) total contingency or 31.8% of the adjusted baseline cost estimate (BCE). The net cost increase was said by the PMOC to be primarily the result of line item adjustments to the BCE for vehicle quantity and escalation rates used to estimate year-of-expenditure costs.

The City incorporated this increase in its financial plan, but also found it necessary to increase the Project's financing costs by \$59 million, bringing the total cost for the Project to the current \$5,347 million.

The PMOC also recommended a project completion date of no earlier than August 2019. This recommendation has not been reflected in the financial plan, but would have an immaterial impact on this financial assessment.

Federal funding assumptions

The capital finance plan assumes receipt of Section 5309 New Starts funds of \$1,550 million, as follows: \$35 million in 2010; \$80 million in 2011; \$200 million in 2012; \$250 million in both 2013 and 2014; \$200 million annually, 2015-2017; and \$135 million in 2018. This level of annual funding is well above that of New Starts projects in medium to large metropolitan areas, but has been accepted by FTA for planning purposes.

The capital plan includes assumptions on two other sources of Federal funds – Section 5307 formula funds and Section 5309 bus funds. The 5307 formula funds are forecasted at a reasonable rate, approximately 2.9 percent annually. This is well below the 8.4 percent annual rate in funds apportioned to Honolulu over the past four years. Section 5309 bus funds are assumed to be roughly 34 percent of on-going bus capital expenditures, averaging about \$13.7 million annually in 2009 dollars, an estimate prepared by the reviewer using a 3 percent discount rate applied to the stream of YOE estimates. Over the past five years, actual earmarks have been about half that amount, or about \$6.8 million annually. Thus, the section 5309 bus funding assumption is considered to be optimistic.

Financing costs

The project cost estimate includes \$290.3 million in financing costs, which is approximately 5.4 percent of total project cost. The financing costs include \$18 million in issuance cost, and \$272 million in interest costs, calculated for the period 2013-2019. These financing costs are associated with \$1,854 million in bonds, and \$500 million in short-term financing, that will be used to finance the construction cash flow.

Interest cost on the bonds is estimated at different rates, depending on the term of the bond. The bonds are to be issued every year between 2013 and 2019. The average term of the bonds is eight years; the term is relatively short because the bonds must be repaid by the time the GET surcharge revenues terminate in FY 2023. The weighted average interest rate is 3.96 percent. This is slightly higher than the current yield on an AA-rated general obligation bond (about 3 percent); however, current yields are at a low and the City is prudent to plan on a higher rate. The issuance cost for the bonds is assumed to be 1 percent, which is a reasonable rule of thumb.

The \$500 million in short-term financing is assumed to be in the form of tax-exempt commercial paper (TECP). TECP issued for the Project would be \$214 million in 2013, growing to \$500 million the following year, and would then be rolled over annually until 2017. The City currently has a \$250 million TECP program; the financial plan assumes that this program can be extended to support the additional short-term debt needed for the Project. The interest rate for this debt is assumed to be 1.66 percent, which is about 120 basis points (1.2 percent) above the current market yield for one-year, AA-rated notes (0.44 percent). As with the bond interest rate noted above, this is a historically low rate and the City is prudent to plan on a higher rate. One-year rates averaged 2.46 percent over the past five years, which suggests that the City's assumption, while reasonable relative to the current market, is not conservative relative to recent history. The issuance cost for TECP is assumed to be 0.25 percent of the TECP proceeds.

The financing costs for the Project appear to be understated by about \$24.7 million, or 8.5 percent. Although the above rates are reasonable, the calculations for short-term interest cost and for issuance costs are understated – short-term interest costs were calculated to be about 0.91 percent of outstanding principal, rather than 1.66 percent; and issuance costs are apparently calculated only on the bonds. Also,

if the TECP issuance cost was included, it should be calculated on the annual issues, not just the total outstanding principal, since the debt will be rolled over (i.e. resold) annually.

It should be noted that the financial plan excludes debt service costs associated with fleet replacement and acquisition, and bus facility projects. The plan anticipates \$571 million in City capital funding for these projects, which is assumed to be in the form of general obligation bonds. There is not enough information in the financial plan to estimate the amount of debt service that would be associated with these bonds.

Agency-wide capital cash flow

The analysis of the agency-wide capital cash flow focused on the forecast of GET surcharge revenues, the proposed debt structure, fleet replacement costs, and year-end cash balances.

GET SURCHARGE REVENUES

GET surcharge revenues are the linchpin of the capital financial plan. These revenues are the dominant source of local capital funds, and serve as the security for bonds and TECP issued to support construction. Although the GET surcharge raises a significant amount of revenue, there is downside risk to the forecast. Given that GET surcharge revenues are highly leveraged in the financial plan, any shortfall in revenue would have material consequences on the City's ability to finance the local share of project cost, unless other sources of capital funds are identified.

The collection of GET surcharge revenues commenced in January 2007. GET surcharge revenue has consistently been less than forecasted. Through the end of FY 2009 (June), cumulative actual revenues were \$337 million. In the November 2007 financial plan, GET surcharge revenues were to have totaled \$411 million ("Forecast B") by the close of FY 2009, and in the September 2008 financial plan they were to have totaled \$363 million.

The annual forecasted growth rate for the GET surcharge revenues in Honolulu County in the current financial plan – 5.4 percent – approximates the historical GET revenue growth in Honolulu County over the last ten fiscal years (5.3 percent, 1999-2009). This period was characterized by rapid economic growth – GET revenues experienced double-digit growth between 2003 and 2007. Since then, growth has cooled, experiencing year-over-year losses in four of the past five quarters. The financial plan forecast is higher than a recent forecast prepared by the Council on Revenues (COR), a group that advises the Governor of Hawaii. The COR forecasts 3.4 percent annual growth through 2015. Although the COR forecast is for the entire State of Hawaii, the historical GET growth rates for the state and for Honolulu County are highly correlated (i.e., Pearson's correlation coefficient exceeding 0.99). The COR forecast approximates the longer-term growth rate in GET revenues, which averaged 3.6 percent annually between 1991 and 2009.

If the forecast were restated to reflect the COR's forecasted rate of growth for GET revenues, the revenue shortfall would be about \$80 million through 2015. If the financial plan's forecasted growth rates were applied from that point forward, the shortfall would total about \$322 million through 2023.

DEBT STRUCTURE

The proposed debt structure fits within the City's affordability guidelines, but has no additional capacity to address cost increases or revenue shortfalls.

The financial plan assumes that all debt issued for the project, other than the TECP described above, will be general obligation (G.O.) debt, thereby obviating the need to maintain a minimum debt service coverage ratio or to fund a debt service reserve. The financial plan also assumes that debt issued in a given year would have no current-year interest payment, which is reasonable only if the bond proceeds

are needed late in the fiscal year. Collectively, these features maximize the amount of debt that could be supported by GET surcharge revenues.

The City's affordability guidelines restrict G.O. debt service to 20 percent of the City's operating budget, for all "direct" and "self-supporting" bonds. The City has confirmed that the debt issued for the Project will be considered "self-supporting" bonds, since the debt service will be paid with GET surcharge revenue. The City provided a forecast of the operating budget through 2023 (the final maturity of Project-related debt), and a forecast of G.O. debt service, including that associated with debt issued for the Project. The forecast of the City operating budget and other G.O. debt appeared reasonable, but was not vetted in detail. At its maximum point, total G.O. and self-supporting debt service would equal 19.6 percent of the forecasted City operating budget at 2018. This translates to \$12 million in additional capacity for debt service. This capacity could be interpreted as about \$300 million in additional principal that could be financed at the financial plan's assumed interest rate (about 4 percent), or could be viewed as a contingency that would cover a 0.1 percent increase in the weighted average interest rate for all G.O. and self-supporting debt.

The GET surcharge revenues that will be applied to Project-related debt service provide very slim coverage. The debt service coverage ratio is 1.0 – the absolute minimum – in fiscal years 2019 through 2021. Although there is no coverage requirement per se associated with G.O. debt, the slim margin in debt capacity coupled with the slim coverage ratio effectively means there is no additional financial capacity to address funding shortfalls or cost increases.

FLEET REPLACEMENT COSTS

Fleet replacement costs are adequately funded in the financial plan, but rely on much higher Section 5309 bus funding than was the case in prior financial plans. The Bus Fleet Plan indicates that the average fleet age will decline (improve) to 6.8 years in the horizon year of the forecast (FY 2030) from 9.3 years in FY 2009. A fleet plan for the demand-responsive fleet was not available. However, the replacement requirements of the current fleet are comfortably covered in the fleet cost estimates.

YEAR-END CASH BALANCES

The year-end cash balance at FY 2023, the last year of debt service and the last year that GET excise revenues are allocated to the project, is \$29 million. During the heaviest years of construction (2012-2019), the ending cash balance is zero. The cash flow is at the margin of feasibility.

Capital financial capacity

The capital financial capacity threshold for a *Medium* rating for a project in preliminary engineering is 25 percent of estimated project cost, or \$1.34 billion. The threshold for a *Medium-Low* rating is 10 percent of estimated project cost, or \$535 million. One may consider three sources of funds to provide this capacity: GET surcharge revenues, forecasted year-end cash balances, and additional financial support from the City or other beneficiaries of the Project.

GET surcharge revenues are unlikely to provide any further capacity beyond what is already assumed in the financial plan – the revenue forecast appears to be overstated based in comparison to long-term trends and in comparison to the COR forecast; there is no net capacity in the baseline forecast after debt service requirements are met; and there is scant debt capacity remaining within the City's affordability guidelines.

Year-end cash balances show that relatively little remains after meeting the project's currently-estimated costs – just \$29 million after the bonds are paid off in 2023.

The financial capacity of the City to provide additional support to the project is a complicated question that cannot be reasonably answered in the scope of this review. However, given the relative optimism of other assumptions affecting the amount of City funds that would be needed to support the Project and the other elements of the transit system (e.g., GET surcharge revenue forecast, section 5309 bus funds, funding of operating subsidy requirements), it seems reasonable to conclude, until and if supporting information is presented, that the City lacks the capacity to provide the additional funds necessary to support a *Medium* or *Medium-Low* rating.

The financial plan references several other options that could conceivably be tapped to provide additional funds or to reduce Project cost – reducing the amount of GET surcharge revenues that are retained by the State (currently 10 percent); accessing Federal airport funding programs to support eligible Project costs; implementing various value capture mechanisms (e.g., assessment districts, tax increment financing); and acquiring military funding. However, none of these concepts have been developed to the point that would allow their reasonableness to be established.

Rating

The capital cost estimates/planning assumptions subfactor is rated *Low*. The major factors contributing to this rating are: (i) material downside risks to the GET surcharge revenue forecast, and consequently the inability to cover all debt service cost; (ii) no net debt capacity; and (iii) lack of information to substantiate the City's capacity to absorb a material amount (up to \$535 million) of cost risk. In addition to these concerns, bus capital funding – clearly needed as evidenced by the relatively old age of the bus fleet – depends on a much higher level of Federal funding than has previously been the case.

Summary Capital Plan Rating

Medium

The summary capital plan rating is *Medium*, reflecting: (i) a capital condition score of *Medium*, weighted at 25 percent; (ii) a capital funding commitment score of *High*, rated at 25 percent; and (iii) a capital cost/planning assumptions/capacity score of *Low*, weighted at 50 percent. The weighted score is 2.5, which is rounded to a score of 3.0, or *Medium*.

Table 1
Proposed Sources of Capital Funds (\$000 Year of Expenditure)

	Amount (\$)	% of Total	Level of Commitment*	Maturity of Sources**	Planning and PE Funds Expended to Date
Federal Section 5309	\$1,550,000	29.0%	N/A	N/A	
Other Federal:					
FTA Sec. 5307 (TIP period)	\$127,508	2.4%	C	E	
FTA Sec. 5307 (after 2014)	\$173,210	3.2%	P	E	
Other					
Subtotal Other Federal	\$300,718	5.6%			
State:					
Subtotal State	\$0				
Local:					
Honolulu G.O. Bonds	\$1,042,735	19.5%	C	N	
GET Surcharge Revenues	\$2,442,350	45.7%	C	E	
ARRA Funds	\$4,000	0.1%	P	N	
Interest earnings	\$7,878	0.1%	C	N	
Subtotal Local	\$3,496,963	65.4%			
Other:					
Subtotal Other	\$0				
Total	\$5,347,681	100.0%			\$0

* Commitment Codes	
Committed	C
Budgeted	B
Planned	P
Uncertain	U
Not Specified	NS

** Maturity Codes	
Existing	E
New	N
Not Specified	NS

Level of Commitment of Capital Funds

	Amount (\$)	%
Committed	\$3,620,471	95.3%
Budgeted	\$0	0.0%
Planned	\$177,210	4.7%
Uncertain	\$0	0.0%
Not Specified	\$0	0.0%
Total	\$3,797,681	100.0%

Maturity of Capital Funding Sources

	Amount (\$)	%
Existing	\$2,743,068	72.2%
New	\$1,054,613	27.8%
Not Specified	\$0	0.0%
Total	\$3,797,681	100.0%

ASSESSMENT OF OPERATING FINANCE PLAN

Current Operating Condition of Agency

Medium

Financial reporting for the operation of transit services by the City of Honolulu is provided in the City's Public Transportation System Fund. At the close of FY 2008 (June), that fund had current assets of \$26.5 million and current liabilities of \$20.1 million, yielding a current ratio of 1.32, indicating sound financial condition. The Public Transportation System Fund held cash and investments of \$11.2 million, which is about 6.3 percent of annual operating cost.

Two other funds which support public transit operations via interfold transfers – the General Fund and the Highway Fund – are governmental funds, for which the annual financial reports do not distinguish between current and long-term assets and liabilities. However, total assets in both funds substantially exceed total liabilities, and the funds collectively reported an unreserved fund balance of \$126.5 million.

According to operating data reported through the National Transit Database (NTD), service levels (i.e., vehicle revenue miles) were fairly steady between 2002 and 2008 for both bus and demand-response services. Fares were increased in 2001 and 2003, pursuant to a City Council resolution that mandates a fare recovery ratio of between 27 percent and 33 percent. There have been no subsequent fare increases, although a fare increase is planned in FY 2010. The fare recovery ratio reported through NTD in 2008 for the bus system was 27 percent. The observed price elasticity for the 2003 fare increase, estimated from NTD data, was -0.06, indicating a fairly low degree of price sensitivity. This estimate adjusts for the lower level of service operated in 2004, reflecting a one-month strike by transit workers.

The operating condition rating is *Medium*. This is based on the current operating ratio of 1.32 and the absence of service cutbacks in recent years, both of which qualify the *Medium* rating.

Commitment of Operating and Maintenance Funding

High

Transit operating funds for the opening year of the project (FY 2019) are presented in Table 2.

The operating funds total approximately \$357 million. These funds consist of: (i) Federal formula funds, \$23.3 million (7 percent); (ii) operating revenues, composed almost entirely of passenger revenues, \$108 million (30 percent); and (iii) operating subsidies from the City's General Fund and Highway Fund, \$225 million (63 percent).

All these funds are considered to be "committed", since they are under the direct control of the City. Thus, this subfactor is rated *High*.

However, as noted below in the operating financial capacity section, the forecasted subsidies would require the City to transfer to the Public Transportation System Fund a higher share of the General Fund and Highway Fund than has historically been the case.

Operating and Maintenance Cost Estimates, Planning Assumptions, and Financial Capacity

Medium-Low

The evaluation of this subfactor focused on the project's O&M costs, system-wide operating trends, and operating financial capacity.

Project O&M costs

The Project is projected to cost \$85.9 million in its first full year of operation (2020). Approximately 6.8 million annual vehicle revenue miles will be operated, yielding a unit cost in 2020 of \$12.56 per vehicle revenue mile. The rail operating cost estimate was reviewed by an FTA consultant in June 2009. The cost estimate was developed from an operating analysis of the Washington, DC, Metrorail system, from which a series of adjustments were made to make the model representative of conditions in Honolulu. The Metrorail system was not a first choice, nor the only choice, to use as a base for the operating cost model. In fact, the Honolulu rail line was said in the report to be analogous to rapid transit operations in Vancouver, BC and Kennedy International Airport (Air Train). The report noted the difficulty in using the Metrorail data to approximate the Honolulu operation, and questioned some of the cost adjustments.

A comparison of the unit cost (\$12.56, 2020\$) to the unit cost of heavy rail and high-speed light rail operators indicates that the financial plan assumptions are optimistic. The 2020 unit cost was discounted to 2007 dollars, at a 2.5 percent annual discount rate, yielding a unit cost of \$9.11. This was compared to 2007 actual results for a collection of heavy rail systems – WMATA Metrorail (\$10.39); Los Angeles MTA (\$14.59); Baltimore (\$10.68); and Miami (\$9.65). The average of these systems was \$11.33. BART was considered but excluded due to its very high operating speed (34.9 mph). The Honolulu unit cost estimate was also compared to two high-speed light rail operations – Dallas (\$15.28) and Los Angeles MTA (\$16.63). The estimated unit cost for Honolulu (\$9.11) is lower than any of these systems. It is 20 percent lower than the heavy rail average, and is 43 percent lower than the light rail average. Although more information is needed about the planned operation, these results suggest that the rail operating cost estimate has much more upside risk than downside risk. Also worth noting is the relatively low rate of growth in rail unit costs – between 2019 and 2030, rail unit cost is forecast to grow at 1.5 percent annually, a full point below inflation.

The Project will have a significant operating impact. Its net cost at 2020 (\$85.9 million) is about 32 percent of the cost of bus and Handi-Van services. The Project will add 6.8 million revenue vehicle miles, a 26 percent increase relative to bus and Handi-Van services.

Operating trends

The review of operating trends focused on inflation assumptions, unit costs, the firebox recovery ratio, and operating subsidies.

The forecasted rate of inflation is 2.5 percent annually beginning in 2012 and continuing through the horizon year of the forecast (2030). The inflation rate for the period 2010-2012 was not cited. The Honolulu CPI-U, as reported by the Bureau of Labor Statistics, averaged 3.1 percent between 1999 and 2008. In the first half of calendar year 2009, Honolulu inflation fell to just 0.8 percent (nationally, there was a 0.5 percent decline). The long-term inflation assumption may be slightly optimistic.

The financial plan assumes a steady increase in bus and demand-response services throughout the forecast. Bus vehicle revenue miles are assumed to grow from about 19.4 million miles currently to 21.6 million miles at 2030, or a growth rate of about 0.5 percent annually. In contrast, bus service levels were nearly constant between 2003 and 2008.

The operating costs of bus and demand-response services were based on a cost build-up model, calibrated to current operations. The disaggregate unit costs were escalated at the assumed rates of growth in the CPI. The average unit costs that result from this procedure show a lower compound annual growth rate than near-term history indicates. Bus operating cost per vehicle revenue mile is forecasted to grow at 2.8 percent between 2009 and 2030, whereas the actual rate of growth between 2004 and 2008 was 4.1 percent. Demand-response cost per vehicle revenue mile is forecasted to grow at 2.4 percent between 2009 and 2030, whereas the actual rate of growth between 2004 and 2008 was 10.7 percent. Thus, the operating cost forecast for both bus and demand-response service is considered to be optimistic.

The financial plan assumes that fares will increase in 2010 (per the budget), 2015 (following the opening of Phase 1), and 2023 (following the opening of Phase 2). Although the fare is planned to increase in steps, the changes in fares approximate inflationary growth throughout the forecast period, and are consistent with the demand modeling assumption. The resulting fare recovery ratio averages 34 percent (2010-2030), which is higher than the five-year historical average (26 percent). This is due to two factors: (i) the introduction of rail system, which is forecasted to have an average 52.9 percent fare recovery ratio; and (ii) relatively low unit cost growth for bus and Handi-Van services.

Operating subsidies are forecast to grow at 4.3 percent, on average, for the forecast period, with near-term rates being higher (5.6 percent, 2009-2018) and the out-years being lower (1.7 percent, 2019-2030). This is a lower rate of growth than experienced over the past five years (8.5 percent), and is also less than the longer-term trend (6.3 percent annually, 1998 to 2008).

Although the forecasted rates of growth in operating subsidies are below historical growth rates, the forecast requires increasing levels of transit subsidy relative to the funds from which the subsidies are transferred – the General Fund and the Highway Fund. Between 2000 and 2010, transit operating subsidies were, on average, 10 percent of combined General Fund-Highway Fund revenues. Between 2010 and 2030, operating subsidies are forecast to average 14 percent of General Fund-Highway Fund revenues, reaching a maximum of 17 percent when the full line opens in 2019. Although there was one year when the historical percentage approached the forecasted average (e.g., 14.8 percent in 2001, when the resolution was passed to keep the firebox recovery ratio between 27 percent and 33 percent), it was an anomaly. An increase from 10 percent to 14 percent of General Fund-Highway Fund revenues is significant. If the forecasted rate (14 percent) were put into effect today, it would leave about \$44 million less revenue for General Fund and Highway Fund programs.

Operating Financial Capacity

The operating cash flow assumes a balanced budget, with no accrual of an operating surplus or reserve. Thus, the 2008 year-end cash and investments held in the Public Transportation System Fund (\$11.2 million) could be assumed to be constant. These funds represent 6.3 percent of operating costs in 2008, and would represent 3.2 percent of operating costs in 2019 when the Project fully opens. In 2030, these funds would represent 2.3 percent of operating cost.

Rating

The cost estimates/planning assumptions/financial capacity subfactor is rated *Medium-Low*. Several observations support this rating. First, it is questionable whether the City can afford the growth in subsidies presented in this financial plan, which require a higher portion of the General Fund and Highway Fund revenues than has historically been the case. Second, the subsidies could be yet higher due to optimistic assumptions regarding operating cost growth for all services. Third, the projected cash balances of the Public Transportation System Fund, inferred from current cash plus investments and the forecasted balanced budget, fall below the 1.5 month standard (12 percent of operating costs) that would be needed to support a higher rating. Finally, there is some prospect that the Project's O&M costs could be understated, based on a comparison to heavy rail and light rail operations in the U.S.

Summary Operating Plan Rating

Medium

The operating plan is rated *Medium*, based on: (i) a *Medium* rating for operating condition, weighted at 25 percent; (ii) a *High* rating for operating funding commitment, weighted at 25 percent; and (iii) a *Medium-Low* rating for operating cost estimates/planning assumptions/capacity, weighted at 50 percent. The weighted score is 3.0, or *Medium*.

Table 2
Proposed Sources of Annual Operating Funds (\$000)

	Amount (\$)	% of Total	Level of Commitment*	Maturity of Sources**
Federal:				
5307 Formula	\$23,347	6.5%	C	E
CMAQ				
Other				
Subtotal Federal	\$23,347	6.5%		
State:				
Subtotal State	\$0			
Local:				
Operating Revenues	\$108,425	30.4%	C	E
City/County of Honolulu	\$225,178	63.1%	C	E
Subtotal Local	\$333,603	93.5%		
Other:				
Subtotal Other	\$0	0.0%		
Total	\$356,951	100.0%		

*Level of Comm. Codes	
Committed	C
Budgeted	B
Planned	P
Uncertain	U
Not Specified	NS

** Maturity Codes	
Existing	E
New	N
Not Specified	NS

Commitment Status

	Amount (\$)	%
Committed	\$356,951	100.0%
Budgeted	\$0	0.0%
Planned	\$0	0.0%
Uncertain	\$0	0.0%
Not Specified	\$0	0.0%
Total	\$356,951	100.0%

Maturity of Commitment of Capital Funds

	Amount (\$)	%
Existing	\$356,951	100.0%
New	\$0	0.0%
Not Specified	\$0	0.0%
Total	\$356,951	100.0%

CONCLUSIONS

- The Honolulu metropolitan area has experienced an economic downturn after several years of robust growth, but appears to have been less effected by the national recession than other metropolitan areas.
- The Honolulu High Capacity Transit Corridor Project will introduce significant capital and operating funding requirements.
- The City's intention to obtain a Letter of No Prejudice (LONP) so that Phase 1 construction can commence prior to the FFGA is unusual, and is conspicuous in scope.
- The GET surcharge revenue forecast has downside risks that could reasonably result in revenues that are inadequate to support debt service payments for the project. The forecast is higher than a recent forecast prepared by the Council on Revenues, and exceeds the long-term growth rate of the GET tax base in Honolulu County.
- The debt financing assumptions for the project maximize the leverage that could be gained from the GET surcharge revenue stream, leaving little if any upside to debt capacity. The Project-related debt will also push the City to its limit of affordability for general obligation debt.
- The operating plan has some optimistic features – operating cost estimates are understated relative to near-term trends (for City operations) and peers (for rail operations); the increase in operating subsidies would require a proportionately greater share of funds to be transferred from the City's General Fund and Highway Fund than has been the case.

RECOMMENDATIONS FOR IMPROVEMENT OF RATING

- The City should provide an independent forecast of GET surcharge revenues from a source that is familiar with the Hawaii economy.
- The City should substantiate its capacity to: (i) provide back-up funds for the Project should there be a cost increase or funding shortfall; and (ii) transfer a greater degree of revenue to the transit program without impacting other necessary City services.
- The operating cost estimate for the Project should be refined and better substantiated.
- The financing of bus and Handi-Van fleet replacements should be less reliant on FTA Section 5309 bus funds.
- The operating plan should be amended to reflect higher rates of unit cost growth for all services.

From: Ryan, James (FTA)
Sent: Friday, August 07, 2009 3:39 PM
To: B-L
Subject: Honolulu

FTA (finally) came to conclusions today on acceptable parameters for the financial plan. Happily, the conclusions on the New Starts amount and maximum annual appropriation are that the City's assumptions in the May 2009 plan are OK on New Starts funding (\$1.55B total and a maximum of \$250M/year). Unhappily, the conclusion on the capital cost estimate is that the plan needs to reflect the PMOC's recommendation that it be \$116M higher than the City's estimate.

So, the City and PB are now hard at work updating the May plan. We have agreed that they do not have to (but may want to) move the plan's timeframe to August rather than May. They have said that they don't want to shift the timeframe because that would require a large set of trivial adjustments to the numbers. So, we expect that the update will be restricted to the \$116M additional cost and whatever funding sources they propose to cover that increase.

Because they are desperate to get into PE, and because the financial review is the last thing on the list of things FTA needs to make a PE decision, and because FTA took so long to decide on the acceptability of the May (!) assumptions, all eyes now turn to you, B-L, to get us to a decision "quickly." I am appropriately embarrassed for FTA. But I've also promised all parties that I'd ask you to get going on the review and complete it as quickly as is consistent with a careful review.

And I am further embarrassed to ask if you have an estimate of when you might get underway and get done.

I just got a message from B-L indicating that they are hoping to have the updated cash-flow tables by the end of today and asking that I pass them on to you in advance of the revised text with updated tables and figures (that they hope to complete by Tuesday or Wednesday). Is there any point in that?

Well, I have now joined the roster of clients who pass their problems on to their contractors. I used to hate that when I was a consultant and am sure you do too. I apologize.

Thanks for your help. Happy Friday afternoon (!?!).

Jim Ryan

LINDA LINGLE
GOVERNOR
JAMES R. AIONA, JR.
LT. GOVERNOR



PAUL H. BREWBAKER
CHAIR

JACK P. SUYDERHOUD
VICE-CHAIR

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Richard F. Kahle, Jr.
Albert Yamada

COUNCIL ON REVENUES

STATE OF HAWAII
P.O. BOX 259
HONOLULU, HAWAII 96809-0259

June 1, 2009

The Honorable Linda Lingle
Governor, State of Hawaii
Executive Chambers
State Capitol, Fifth Floor
Honolulu, HI 96813

Dear Governor Lingle:

At its meeting on May 28, 2009, the Council on Revenues reduced, from -5.0% to -9.0%, the forecast growth rate of General Fund tax revenues for fiscal year (FY) 2009 and reduced, from 0.5% to 0.0%, the forecast growth rate for FY 2010. Forecast growth rates for FY 2011 through FY 2013 have been adjusted to reflect the anticipation of moderate recovery of the Hawaii's economy, consistent with earlier expectations.

Revised forecasts of State General Fund tax revenues for FY 2009 through FY 2015 are listed in the table below:

Fiscal Year	Thousands of Dollars	% Growth From Previous Year
2009	\$4,224,104	-9.0%
2010	\$4,224,104	0.0%
2011	\$4,460,654	5.6%
2012	\$4,692,608	5.2%
2013	\$4,974,164	6.0%
2014	\$5,277,588	6.1%
2015	\$5,536,190	4.9%

Line-item detail of State General Fund tax revenues by revenue category for FY 2009 through FY 2015 are presented in the attached table. These detailed forecasts are based on the Council's forecast for total State General Fund tax revenues and the econometric model currently used by the Tax Research and Planning Office.

Recent trends in tax revenue collections extended a pattern, since early-FY 2009, of decreases at rates faster than forecast. Recent double-digit decreases in tax collections through April 2009 appeared to be continuing through May 2009, based on preliminary reports from the Department of Taxation. These large year-over-year decreases coming during the final months of the fiscal year meant that the path of revenue growth had tilted downward at a faster and faster rate as Hawaii approached fiscal year-end. In addition to this trend, the Council considered recent widespread incidence of the H1N1-A flu virus on tourism performance, particularly with respect to travel from Japan. Previous episodes of biological event risk (SARS in 2003) and geopolitical event risk (9/11 in 2001) have had disproportionately large adverse impacts on foreign travel to Hawaii. Spending by tourists decreased by a much larger proportion than visitor arrivals decreased during the twelve months, in spite of stabilization in domestic travel volumes since last fall (on a seasonally-adjusted basis). As a result, the recent flu epidemic is anticipated to have aggravated already disappointing tourism performance in the final quarter of the fiscal year. Lower forecasts of construction activity also weighed on prospects for revenue growth in the fiscal year's final months. Contracting receipts are expected to follow downward, at double-digit annual rates of decrease, declining values of private authorizations by building permit and declining construction employment.

The Council acknowledged interim estimates of revenues accruing to the State of Hawaii other than General Fund tax revenues, non-tax revenues reported by the Department of Budget and Finance as arising from passage in February of the American Recovery and Reinvestment Act of 2009 (ARRA). (Their numerical estimate concludes this correspondence.) These extraordinary economic stimulus funds potentially amount to hundreds of millions of additional economic activity during the next eighteen months or more. At a time of higher than normal unemployment of labor and other resources as a result of the recession, revenue increase associated with ARRA might be expected to have larger multiplier impacts on local economic activity, including tax revenue increases, than might be customary at full employment. However, no tax revenue estimates in conjunction with these economic impacts has been made by the Council, as considerable uncertainty continues to attach to the magnitudes of stimulus funds, the nature of their deployment, and the timetable for their deployment.

The Council still believes that the downturn in Hawaii's economy may be nearing a bottom, to be followed—but only gradually beginning in the second half of FY 2010—by an economic recovery over several years. At the same time, the Council remains concerned about unpredictable factors that could reduce State revenues by more than already forecast. During the current fiscal year (FY 2009) the Council's forecasting track record has been derailed by global recession, one of increasing severity scarcely evident at the conclusion of FY 2008 last June. Beginning in mid-September 2008 a precipitous downdraft in stock prices ensued after the collapse of Lehman Brothers, federal conservatorship for the mortgage-lending agencies Fannie Mae and Freddie Mac, and sudden reversal of a debilitating price spike in petroleum and other commodities that concluded last summer. These events followed several prior years of steady erosion of home prices around the country, a wealth contraction associated with a spreading contagion of financial systemic risk. Simultaneously, during the first quarter of Hawaii's FY 2009 (third calendar quarter 2008), the global asset price implosion was accompanied by sharp decreases (at seasonally-adjusted annual rates) in quarterly growth of U.S. personal consumption

expenditure. The consumption contraction on the real side of the economy was followed by decreases in international trade volumes, nonresidential investment and, ultimately, gross domestic product (GDP). U.S. real GDP declined at more than 6 percent annualized quarterly rates from September 2008 through March 2009. This all happened *after* the State of Hawaii's fiscal year began in July 2008. Moreover, since last July 2008 these events have simultaneously unfolded worldwide with remarkably similar intensity. No historical precedent for such broad economic deterioration, in valuations across all asset classes from stocks to commodities and with global macroeconomic scope, exists in the modern record.

Consistently during its scheduled and two specially-convened revenue forecasting meetings in this same period since July 2008, the Council's forecasts of ever larger decreases in State General Fund tax revenues for the current fiscal year were outstripped—literally quarter by quarter—by even larger *actual* rates of decrease that mirrored the global economic unraveling. From meeting to meeting the Council has factored into its evolving expectations the information content of its own, widening forecast errors, and the Council has again done so in this current revenue forecast. Thus, while Hawaii's prospects for economic stabilization in FY 2010 and recovery thereafter are improving amidst slowly unfolding evidence of stabilization nationwide, the Council continues to believe that risks remain to the downside. Many Council members are encouraged by signs of stabilization in national financial markets and in macroeconomic activity, as well as some evidence of similar stability in the local economy. An impressive and unprecedented array of fiscal and monetary policy interventions at the national level now provide countercyclical support for the financial system and for the real economy. These policy measures would appear equal to the task. A long slow economic recovery for the U.S. and Hawaii would be consistent with the Council's forecast that in the coming fiscal year 2010 no meaningful variation is plausible from the levels to which State General Fund tax revenues will settle in FY 2009, final amounts which will be known in a manner of weeks. It will be important at fiscal year-end to *again* calibrate the Council's most recent forecast to the serial pattern of forecast error that has accompanied this fiscal year's events and to align, to that new benchmark, revenue expectations for the coming fiscal year. A diminution of forecast error from a recent range of -2 percentage points at the time of this fiscal year-end reckoning would be a welcome indication that economic uncertainties may be receding.

In producing its forecasts, the Council adopted specific adjustments recommended by the Hawaii Department of Taxation reflecting impacts on General Fund tax revenues of recent tax law changes enacted in 2008 and in 2009, including:

- Act 209, Session Laws of Hawaii (SLH) 2007—exempts from the general excise tax sales of alcohol fuel; a decrease of approximately \$40 million for FY 2009.
- Act 211, SLH 2007—provides a refundable food/excise tax credit; a decrease of approximately \$24 million per year starting in FY 2009.
- Act 58, SLH 2008—provides a one-time, refundable, constitutionally mandated income tax credit; a decrease of approximately \$1 million for FY 2009.

- Act 89, SLH 2008—applies the 0.5% general excise tax rate to certain warranty work performed on behalf of manufacturers; a decrease of approximately \$1.5 million for FY 2009 and annually thereafter.
- Act 143, SLH 2008—amends provisions relating to agricultural businesses qualifying for enterprise zone benefits; a decrease of approximately \$100,000 for FY 2009, \$200,000 for FYs 2010–2011, \$300,000 for FY 2012, and 500,000 for FY 2012 and annually thereafter.
- Act 156, SLH 2008—allows state and county governments to hire retired state or county government employees; an increase of approximately \$1.5 million for FYs 2009–2013.
- Act 233, SLH 2008—provides an important agricultural land qualified agricultural cost income tax credit; a decrease of approximately \$7.5 million annually for FYs 2010–2014.
- Act 40, SLH 2009—reduces the interest rate applied to overpayments of tax; an increase of approximately \$2.7 million for FY 2010 and annually thereafter.
- Act 56, SLH 2009—increases the cigarette tax by one cent on July 1, 2009, July 1, 2010, and July 1, 2011; an increase of approximately \$22.5 million for FY 2010, \$24.2 million annually for FY 2011 and FY 2012, and \$21.6 million for FY 2013 and annually thereafter.
- Act 58, SLH 2009—increases the tobacco tax on tobacco products other than cigarettes and taxes “little cigars” as cigarettes; an increase of approximately \$1.8 million for FY 2011 and annually thereafter.
- Act 59, SLH 2009—increases the conveyance tax and reduces the conveyance tax allocations to the Rental Housing Trust Fund and the Natural Area Reserve Fund; an increase of approximately \$5.1 million annually for FY 2010 through FY 2012, and \$2.8 million for FY 2013 and annually thereafter.
- Act 60, SLH 2009—temporarily increases the income tax rate on high income individuals and increases the standard deduction and personal exemption amounts; an increase of approximately \$32.3 million annually for FY 2010 through FY 2011, and \$20.8 million annually for FY 2012 through FY 2016.
- Act 61, SLH 2009—provides an additional 1% transient accommodations tax from July 1, 2009 through June 30, 2010, and an additional 2% transient accommodations tax from July 1, 2010 through June 30, 2015; an increase of approximately \$26.6 million for FY 2010, \$61.0 million for FY 2011, \$64.0 million for FY 2012, \$67.3 million for FY 2013, \$70.8 million for FY 2014, and \$74.4 million for FY 2015.

The Honorable Linda Lingle
June 1, 2009
Page 5

As is customary, the Council did *not* contemplate revenue impacts of legislation that has not yet been enacted.

Various revenue estimates provided to the Council by the Hawaii Department of Budget and Finance at the Council's May 28, 2009, meeting were accepted as submitted; notable changes to those estimates are highlighted in the next several paragraphs.

General Fund Non-Tax Revenue estimates for FYs 2009 through 2015 reflected lower year-to-date investment pool interest earnings and an early transfer of excess funding in FY 2009 from Unclaimed Property.

Special Fund Tax Revenue estimates for FYs 2009 through 2015 reflected adjustments due to lower vehicle surcharge, rental/tour collections in FY 2009; and adjustments in unemployment compensation tax collections due to lower year-to-date collections in FYs 2009 through 2010 and projected increases in FYs 2011 through 2015 due to changes in both the taxable wage base and the contribution rates schedule.

Special Fund Non-Tax Revenue estimates for FYs 2009 through 2015 reflected lower year-to-date interest earnings for the Unemployment Compensation Fund, and lower dockage fees and wharfage fees in FY 2009 for the Department of Transportation's Harbors Division. These were offset by higher year-to-date collections associated with the tobacco settlement agreement.

Other Than Special Fund Non-Tax Revenue estimates for FYs 2008 through 2015 reflected the reclassification of Department of Human Services revenues in FYs 2010 and 2011 from federal funds to the ARRA, and estimated increases for Medicaid reimbursements that were inadvertently not being reported (Department of Health). Additionally, total stimulus funds of approximately \$765 million are reported in FYs 2009 through 2012.

Please advise us if we can be of further assistance or if we can answer any questions you may have.

Sincerely,

(submitted via e-mail June 1, 2009)

PAUL H. BREWBAKER, Ph. D.
Chair, Council on Revenues

Attachments

ESTIMATES OF GENERAL FUND TAX REVENUE: FY 2009 to FY 2015

(in thousands of dollars)

	ACTUAL			ESTIMATED					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
General Excise & Use 2/, 3/	\$2,555,762	\$2,618,787	\$2,346,153	\$2,279,116	\$2,350,719	\$2,396,529	\$2,516,088	\$2,648,271	\$2,727,116
Income - Individual 5/	1,559,690	1,544,307	1,361,177	1,351,678	1,429,968	1,531,494	1,618,344	1,704,488	1,797,267
Income - Corporation	81,834	85,081	75,565	59,919	56,717	65,654	75,318	88,378	102,784
Public Service Company	124,017	127,481	134,789	141,057	147,836	154,904	161,913	168,790	175,707
Insurance Premiums	92,196	95,742	128,138	163,797	203,328	257,036	308,108	361,206	415,320
Tobacco & Licenses 6/	84,219	83,443	93,254	115,754	122,012	124,940	125,237	128,211	131,264
Liquor & Permits	46,034	45,620	44,509	45,295	46,518	47,715	48,969	50,204	51,437
Banks & Other Fin Corps	16,599	18,212	14,022	12,147	13,210	19,959	23,616	26,679	28,817
Conveyance 4/	7,033	6,513	13,853	17,578	16,264	14,962	11,421	10,141	8,873
Miscellaneous *	1,120	751	590	589	588	587	586	585	584
Transient Accommodation Tax 1/	17,076	15,935	12,054	37,174	73,494	78,828	84,564	90,635	97,021
NET TOTAL	\$4,585,580	\$4,641,872	\$4,224,104	\$4,224,104	\$4,460,654	\$4,692,608	\$4,974,164	\$5,277,588	\$5,536,190
GROWTH RATE	3.4%	1.2%	-9.0%	0.0%	5.6%	5.2%	6.0%	6.1%	4.9%

Notes:

1/ Deposits of 44.8% of TAT revenues to counties (Act 156, SLH 1998); 32.6% to the tourism special fund and 5.3% to the TAT trust fund (Act 250, SLH 2002); 17.3% to the convention center enterprise fund (Act 253, SLH 2002); all net of general fund deposits of excess of fund ceilings. Act 235, SLH 2005, increases allocation to the tourism special fund to 34.2% and repeals the TAT trust fund. Effective on July 1, 2007. Act 209, SLH 2006, increases ceiling on allocation to the convention center enterprise fund to \$33 million. Effective on July 1, 2006. Act 61, SLH 2009, temporarily imposes an additional 1.0% TAT for the period 7/1/2010 through 6/30/2010, and an additional 2.0% TAT for the period 7/1/2010 through 6/30/15. These additional amounts will be deposited into the general fund.

2/ FY 2012 excludes \$40 million, due to June 30, 2012 falling on a weekend. FY 2014 includes \$40 million, estimated spillover from June 30, 2013 falling on weekend.

3/ Act 209, SLH 2007, exempts gross income received from the sale of alcohol fuel from the general excise tax. Effective on July 1, 2007, provided that the exemption repeals on June 30, 2009. Act 40, SLH 2009, reduces the interest rate on overpayments due to taxpayers from 2/3 of 1% to 1/3 of 1% per month or fraction thereof.

4/ Due to the expiration of Act 222, SLH 2007, on June 30, 2008, the amount of conveyance tax deposited into the General Fund increased from 15% to 35%. Act 59, SLH 2009, increased the conveyance tax rates for properties valued \$1 million or more.

5/ Act 60, SLH 2009, temporarily increases the standard deduction and personal exemption amounts for taxable years beginning after 12/31/10, and also temporarily creates new 9%, 10%, and 11% tax brackets for certain individuals with high taxable income beginning with taxable years beginning after 12/31/08. Act 60, SLH 2009, will be automatically repealed on December 31, 2015.

6/ Act 58, SLH 2009, taxes "little cigars" in the same manner as cigarettes beginning 9/30/09; increases the tax on tobacco products other than cigarettes, little cigars, and cigars from 40% to 70% beginning 9/30/09; imposes a 50% tax on cigars. Act 56, SLH 2009, increases the cigarette tax from 11¢ to 13¢ on 7/1/09, from 12¢ to 14¢ on 7/1/10, and from 13¢ to 15¢ on 7/1/11; and also amends the dates on which changes in the allocation of cigarette tax revenues changes.

* Includes inheritance and estate tax.

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May 28, 2009

STATE OF HAWAII
CONSOLIDATED MULTI-YEAR GENERAL FUND REVENUES FROM SOURCES OTHER THAN TAX,
AND SPECIAL REVENUES FROM TAX & SOURCES OTHER THAN TAX

FISCAL YEARS 2008 - 2015

(in thousands of dollars)

Sources	Actual FY 2008	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated FY 2012	Estimated FY 2013	Estimated FY 2014	Estimated FY 2015
REVENUES - TAX								
Special Revenue Fund	466,142	389,609	481,722	832,944	852,055	758,627	698,990	715,978
REVENUES - OTHER THAN TAX								
License & Permits / Use of Money & Prop./ Other Agencies / Fines, Forfeits & Penalties / Repayment of Loans & Adv.	504,626	442,517	416,688	405,635	405,462	401,545	397,750	399,269
Federal	2,139,123	2,284,081	2,145,293	2,178,047	2,205,681	2,227,617	2,247,817	2,271,402
Federal-American Reinvestment & Recovery Act	0	167,931	405,677	179,664	12,058	0	0	0
Charges for Current Services	1,511,756	1,558,834	1,577,723	1,663,996	1,712,010	1,758,837	1,792,724	1,836,567
Non-Revenue Receipts	1,261,870	1,233,161	1,174,435	1,093,766	1,124,441	1,164,340	1,194,510	1,227,193
Office of Hawaiian Affairs	23,801	20,800	15,100	15,100	15,100	15,100	15,100	15,100
Judiciary	44,779	42,914	45,356	46,263	47,087	48,039	49,016	50,018
Subtotal Revenues - Other Than Tax	5,485,954	5,750,238	5,780,272	5,582,471	5,521,839	5,615,478	5,696,917	5,799,549
TOTAL REVENUES	5,952,096	6,139,847	6,261,994	6,415,415	6,373,894	6,374,105	6,395,907	6,515,527
ADJUSTMENTS - Revenue Transfers	296,504	128,793	97,196	100,358	103,275	103,279	103,279	103,277
TOTAL ADJUSTED REVENUES	5,655,592	6,011,054	6,164,798	6,315,057	6,270,619	6,270,826	6,292,628	6,412,250

Prepared by: Department of Budget & Finance

May 28, 2009

STATE OF HAWAII
GENERAL FUND
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2008 - 2015
(in thousands of dollars)

<u>Sources</u>	<u>Actual FY 2008</u>	<u>Estimated FY 2009</u>	<u>Estimated FY 2010</u>	<u>Estimated FY 2011</u>	<u>Estimated FY 2012</u>	<u>Estimated FY 2013</u>	<u>Estimated FY 2014</u>	<u>Estimated FY 2015</u>
Licenses & Permits	1,510	1,006	1,006	1,006	1,006	1,006	1,006	1,006
Revenues from Use of Money and Property	89,520	55,099	53,966	52,661	55,459	56,245	57,406	59,203
Federal	4,536	5,283	4,708	4,573	4,573	4,573	4,573	4,573
Revenues from Other Agencies	2,328	2,814	2,814	2,814	2,814	2,814	2,814	2,814
Charges for Current Services	238,966	214,490	218,181	226,276	235,203	246,158	248,212	250,322
Fines, Forfeits & Penalties	494	525	540	540	540	540	540	540
Repayment of Loans & Advances	30,019	24,358	19,474	23,808	21,938	19,564	19,563	20,220
Non-Revenue Receipts	202,414	199,151	176,082	179,299	182,219	182,219	182,219	182,219
Judiciary	34,209	32,698	35,176	35,915	36,666	37,441	38,237	39,054
Total	603,997	535,424	511,947	526,892	540,418	550,560	554,570	559,951

Prepared by: Department of Budget & Finance

May 28, 2009

STATE OF HAWAII
SPECIAL REVENUE FUND
MULTI-YEAR TAX REVENUES
FISCAL YEARS 2008 - 2015
(in thousands of dollars)

<u>Sources</u>	<u>Actual FY 2008</u>	<u>Estimated FY 2009</u>	<u>Estimated FY 2010</u>	<u>Estimated FY 2011</u>	<u>Estimated FY 2012</u>	<u>Estimated FY 2013</u>	<u>Estimated FY 2014</u>	<u>Estimated FY 2015</u>
Transfer of Gen. Excise Tax	-	-	-	-	-	-	-	-
Transfer of Tobacco Tax	5,822	8,963	13,724	21,145	29,420	31,777	31,777	31,777
Liquid Fuel:								
Highway	88,135	88,774	89,438	90,107	91,006	91,914	92,831	93,757
Aviation	4,216	4,452	4,452	4,452	4,452	4,452	4,452	4,615
Small Boats	<u>1,640</u>	<u>1,300</u>	<u>1,300</u>	<u>1,300</u>	<u>1,300</u>	<u>1,300</u>	<u>1,300</u>	<u>1,300</u>
Subtotal	93,991	94,526	95,190	95,859	96,758	97,666	98,583	99,672
Transfer of Transient Accom Tax	112,900	105,095	105,516	108,477	112,625	117,410	122,657	128,328
Motor Vehicle Weight Tax	34,010	34,435	34,865	35,301	35,743	36,189	36,642	37,100
Vehicle Registration Fee Tax	26,445	26,616	26,884	27,155	27,429	27,707	27,989	28,273
Vehicle Surcharge:								
Rental /Tour	49,688	43,000	51,184	52,207	41,141	38,451	38,932	39,418
Environmental Response Tax	1,695	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Unemployment Comp Tax	103,882	44,000	123,000	461,000	475,000	375,000	308,000	317,000
Employment & Training	1,125	420	440	500	950	950	950	950
Election Campaign Contrib T.F.	190	175	158	140	129	117	100	100
Transfer of Banks & Fin. Corp Tax	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Transfer of Conveyance Tax	32,647	27,078	25,460	25,860	27,560	28,060	28,060	28,060
Transfer of Tax on Ins. Premiums	<u>1,745</u>	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>
Total	<u>466,142</u>	<u>389,609</u>	<u>481,722</u>	<u>832,944</u>	<u>852,055</u>	<u>758,627</u>	<u>698,990</u>	<u>715,978</u>

Prepared by: Department of Budget & Finance

May 28, 2009

STATE OF HAWAII
SPECIAL REVENUE FUND - SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2008 - 2015
(in thousands of dollars)

<u>Sources</u>	<u>Actual FY 2008</u>	<u>Estimated FY 2009</u>	<u>Estimated FY 2010</u>	<u>Estimated FY 2011</u>	<u>Estimated FY 2012</u>	<u>Estimated FY 2013</u>	<u>Estimated FY 2014</u>	<u>Estimated FY 2015</u>
Licenses & Permits	14,412	15,676	17,184	17,275	17,403	17,369	17,411	17,488
Revenues from Use of Money and Property	151,723	89,402	89,467	102,923	101,549	99,854	99,539	98,911
Federal	308,390	234,574	233,336	242,395	242,396	244,292	244,564	246,605
Revenue from Other Agencies	59,228	85,472	82,465	57,465	57,465	57,465	57,465	57,465
Charges for Current Services:								
Utils & Other Enterprises	329,810	374,919	385,138	412,154	436,478	468,234	495,550	537,101
Others	812,025	779,455	856,939	901,826	917,242	923,678	928,639	929,310
Fines, Forfeits & Penalties	5,062	5,841	4,016	3,169	3,235	3,251	3,267	3,284
Non-Revenue Receipts	286,296	124,439	115,994	115,989	115,986	115,990	115,990	115,988
Judiciary	<u>10,570</u>	<u>10,216</u>	<u>10,180</u>	<u>10,348</u>	<u>10,421</u>	<u>10,598</u>	<u>10,779</u>	<u>10,964</u>
Total	<u>1,977,515</u>	<u>1,719,994</u>	<u>1,794,719</u>	<u>1,863,544</u>	<u>1,902,175</u>	<u>1,940,731</u>	<u>1,973,204</u>	<u>2,017,116</u>
Adjustments:								
Revenue Transfers	245,764	87,895	79,450	79,445	79,442	79,446	79,446	79,444
Adjusted Total	<u>1,731,751</u>	<u>1,632,099</u>	<u>1,715,269</u>	<u>1,784,099</u>	<u>1,822,733</u>	<u>1,861,285</u>	<u>1,893,758</u>	<u>1,937,672</u>

Prepared by: Department of Budget & Finance

May 28, 2009

STATE OF HAWAII
SPECIAL REVENUE FUND - OTHER THAN SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2008 - 2015
(in thousands of dollars)

Sources	Actual FY2008	Estimated FY2009	Estimated FY2010	Estimated FY2011	Estimated FY2012	Estimated FY2013	Estimated FY2014	Estimated FY2015
Licenses & Permits	543	588	698	584	583	583	583	583
Revenues from Use of Money and Property	100,535	108,909	92,430	90,095	89,550	89,196	88,908	88,335
Federal	1,826,197	2,044,224	1,907,249	1,931,079	1,958,712	1,978,752	1,998,680	2,020,224
Federal-American Recovery & Reinvestment Act	0	167,931	405,677	179,664	12,058	0	0	0
Revenues from Other Agencies	17,053	18,284	17,923	17,928	17,928	17,933	17,933	17,933
Charges for Current Services	130,955	189,970	117,465	123,740	123,087	120,767	120,323	119,834
Fines, Forfeits & Penalties	1,905	909	908	908	908	908	908	908
Repayment of Loans & Advances	30,294	33,634	33,797	34,459	35,084	34,817	30,407	30,579
Non-Revenue Receipts	773,160	909,571	882,359	798,478	826,236	866,131	896,301	928,986
Office of Hawaiian Affairs	<u>23,801</u>	<u>20,800</u>	<u>15,100</u>	<u>15,100</u>	<u>15,100</u>	<u>15,100</u>	<u>15,100</u>	<u>15,100</u>
TOTAL	<u>2,904,443</u>	<u>3,494,820</u>	<u>3,473,606</u>	<u>3,192,035</u>	<u>3,079,246</u>	<u>3,124,187</u>	<u>3,169,143</u>	<u>3,222,482</u>
Adjustments:								
Revenue Transfers	7,080	2,344	2,260	2,210	2,210	2,210	2,210	2,210
Adjusted Total	<u>2,897,363</u>	<u>3,492,476</u>	<u>3,471,346</u>	<u>3,189,825</u>	<u>3,077,036</u>	<u>3,121,977</u>	<u>3,166,933</u>	<u>3,220,272</u>

Prepared by: Dept. of Budget & Finance

May 28, 2009

From:

Sent: Monday, August 31, 2009 4:26 PM

To:

Cc: Ryan, James (FTA);

Subject: RE: additional questions regarding Honolulu HCT financial plan

B-L

JV

With regard to the total project cost, the \$62m is the amount expended in FY 2009 which was prior to approval to enter PE, so it is a cost that won't be included in the FFGA. (As it has developed we also will have 2 or more months of FY 2010 in that same category, but that hasn't been reflected, yet, in the New Starts templates.)

I'll get you the Phase 1 costs by year later today.

From:

Sent: Monday, August 31, 2009 12:33 PM

To:

Cc: james.ryan@dot.gov

Subject: Re: additional questions regarding Honolulu HCT financial plan

Importance: High

B-L

Thanks for your response.

I still want to see the Phase I costs. Please send the annual estimated costs for Phase I for the period 2009 through its completion.

Also, I need clarification on the total project cost. The financial plan states that the project cost, net of financing, is \$5,120 million (Table 2-1). This total is consistent with the cash flow presented in Appendix A to the financial plan, for the period 2009-2019. The New Starts finance template you sent me shows a total project cost of \$5,348 million, with financing costs of \$290 million, so by deduction the project cost net of financing would be \$5,058 million. Thus, there is a \$62m difference between the project cost presented in the financial plan and that presented in the New Starts finance template. Please explain this difference.

thanks,

On Aug 28, 2009, at 7:11 PM, B-L wrote:

Our responses are noted below in red. The attached spreadsheet addresses question 6.

From:

To:

Cc: ; Jim Ryan ;

Sent: Wed Aug 26 16:15:15 2009

Subject: additional questions regarding Honolulu HCT financial plan

Dear

I appreciate the County's quick response to my questions that were e-mailed on 8/18.

I have a few additional questions, listed below, to which I would appreciate your prompt attention.

1. Regarding the HCT GET surcharge revenue forecast, the financial plan text states that the current forecast is consistent with that of the Council on Revenues (COR). However, when I reviewed both the March forecast and August forecast of the COR, their year-to-year growth rates in state-level GET revenues are consistently lower than I calculate from the HCT GET surcharge forecast included in your August 2009 financial plan submittal. The table below shows a comparison of the most recent HCT and COR forecasts for fiscal years 2010-2015. From an examination of State and Honolulu County historical revenues, I find that the State and Honolulu GET revenues are highly correlated, so I would expect that the HCT GET revenue forecast would more closely match the COR forecast, if in fact they are consistent. Would you please explain how the HCT GET surcharge forecast is "consistent" with the COR forecast, and also why the annual growth rates are different?

<image001.gif>

As noted on Page 2-5 of the August 2009 Financial Plan, growth rates consistent with the Council on Revenues were assumed only for FY 2010 (the May 1, 2009 Financial Plan assumed growth rates consistent with the Council on Revenues for FY 2009 and FY 2010; the FY 2009 revenue in the August plan is actual). As described on Page 2-6, Oahu specific growth rates were developed for use in FY 2011 through FY 2023. The GET surcharge revenue forecasts presented in the financial plan also explicitly include the GET surcharge revenue generated by Rail Transit project expenditures. Excluding project-generated GET surcharge revenue, the FY 2009 receipts by the City equal 163.64 million, while the FY 2010 receipts by the City equal 163.04 million, a 0.4% decline.

2. The plan states that Phase 1 of the Project will be 100% locally funded. Please provide annual capital costs, net of financing, for Phase 1. Do you intend that Phase 1 not be part of the FFGA? If Phase 1 is part of the FFGA, then on what basis would Section 5309 New Starts funds be applied to it?

While the first construction phase will likely be mostly locally funded (no FFGA until 2011), the City intends to request a letter of no prejudice for that segment. The FTA is aware of this. Therefore the first phase of the project would not be excluded from FFGA and 5309 funds would apply to the whole Project.

3. Are the bonds to be issued for the Project general obligation bonds or "self-supporting" bonds? If the latter, can you provide an example of similar bonds issued by Honolulu that did not require a debt service reserve or a minimum debt service coverage ratio for the issuance of additional bonds? Do you anticipate the HCT GET surcharge revenues to be pledged as a credit for the bonds?

The bonds are structured as GO bonds that are supported by the full faith and credit of the City. They are, however, considered as self-supported bonds for the purpose of the City's affordability guidelines. These two nomenclatures are not mutually exclusive. Examples of other self-supported GO Bonds include GO Bonds issued for certain sewer projects, solid waste projects, housing projects or H-Power waste-to-energy project.

4. The plan assumes \$500 million in short-term financing. What kind of approval is required? How is this debt to be secured? If it is to be secured by the HCT GET surcharge, is it to be subordinate to the other debt to be issued for the Project?

The City and County of Honolulu already has a short term financing program in place in the form of tax exempt commercial paper currently capped at \$250 million. The \$500 million in short term debt assumed for the Project could be an extension of that plan or could represent an access to a line of credit or other short-term financing mechanisms, including grant anticipation notes. The short term debt is assumed to be rolled over until ultimately being refinanced into longer term debt which is backed by GET surcharge revenues. We fully intend to continue working with the Department of Budget and Fiscal Services as the Project advances to ensure that the financing structure represents a solution that meets the City's overall financial policies.

5. The plan assumes that 33% of bus and HandiVan capital costs will be funded from Section 5309 Bus grants. What is the basis for this assumption?

The assumption used work done in the Alternatives Analysis that showed the amount received from 5309 for bus discretionary to be about \$6.25 million a year on average between 1996 and 2007. The costs identified for bus discretionary in the financial plan average about \$19.5 per year between 2010 and 2030. The 33% reflects historical revenue levels compared to future expenditures. Admittedly, allocations to Honolulu for bus acquisitions have been lower since 2007, but based on the past revenue levels, the assumptions seemed reasonable for planning purposes. This assumption will be further refined in preliminary engineering. The bottom line is that any reduction in the 5309 contribution will increase the need for GO bonds proceeds.

6. Please provide the annual revenue vehicle hours to be operated on the fixed guideway system.

Please see attached spreadsheet.

Thank you for your consideration. Please feel free to call me if you have any questions.
best regards,

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<HNL FG Revenue Hours.xls>

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Attached is an updated Financial Plan submittal for Entry into Preliminary Engineering for the Honolulu High-Capacity Transit Corridor project. This plan incorporates the revisions to the capital costs estimates recommended by the PMOC as well as revised local tax revenue forecast based on more recent data. In order to help you and Ben Porter go through this plan quickly, we have summarized the major changes from the Financial Plan dated May 1, 2009 below.

Changes in Capital Cost

Per FTA's recommendation, the City has revised the capital cost estimate of the Project to incorporate the PMOC's recommendation in its cost assessment presented in its final spot report ("CLIN 0005: Spot Report"). The change in capital cost also had an impact on finance charges. The Table below summarizes the difference in total capital cost and finance charges. The total impact of the recommended change in project capital cost resulted in an increase of \$174 million year of expenditure (YOE) dollars from the May 2009 Financial Plan.

Difference in Capital Cost and Finance Charges between May 2009 and August 2009 Financial Plans

YOE \$millions	May 2009 Version	August 2009 Revision	Difference
Capital Cost Excluding Finance Charges, FY2010 - 2019	\$4,942	\$5,057	\$115
Finance Charges, FY2010 - 2019	231	290	59
Total Capital Cost	\$5,173	\$5,347	\$174

The finance charges presented above also include an upward adjustment to the interest rate contingency, from 50 basis points above current interest rates to 100 basis points, thereby reflecting the fact that interest rates are currently at historical lows. The impact on the weighted average interest rate across all maturities is an increase from 3.27 percent to 3.96 percent.

Please note, as was the case for the May 2009 Financial Plan, that the enclosed Financial Plan includes costs that are not part of the New Starts Total Project Cost. Specifically, the Financial Plan includes costs for FY2009, which were prior to Preliminary Engineering and thus will not be part of the cost included in the FFGA. Similarly the Financial Plan includes finance charges from after the completion of the Project. Table 1-1 in the Financial Plan shows the differences between the Project Cost reflected in the Financial Plan and the Expected FFGA Total Project Cost.

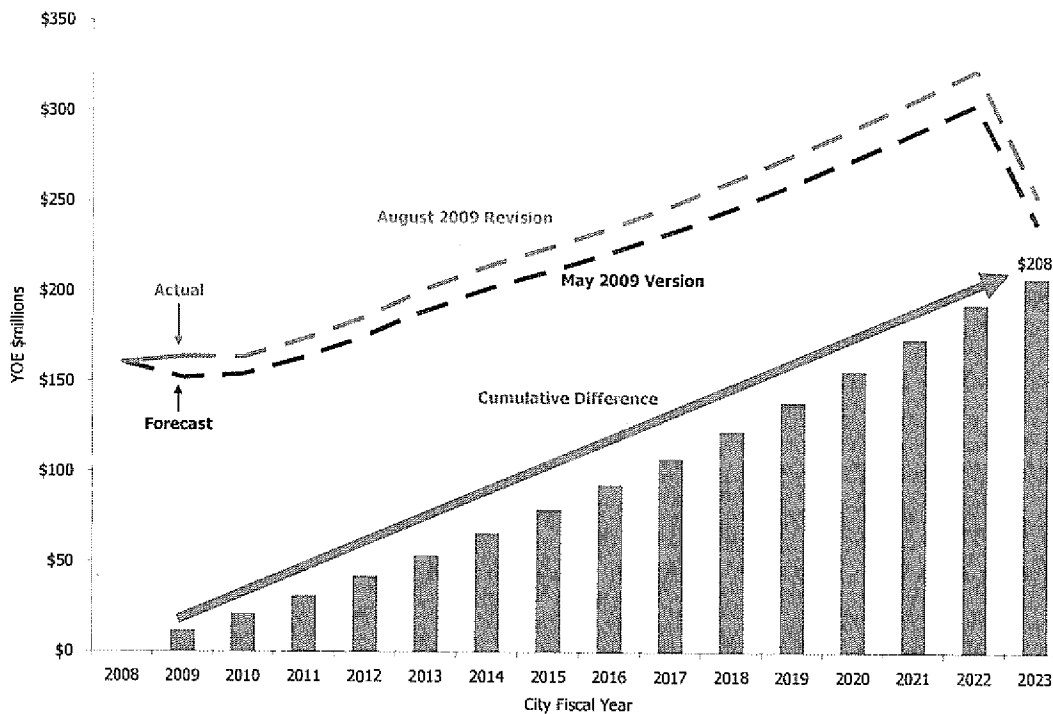
Changes in General Excise and Use Tax (GET) Revenues

Net GET surcharge revenue projections were revised based on two factors:

- Actual data for FY2009 receipts: Actual FY2009 receipts totaled \$164 million YOE compared to the \$152 million estimate forecasted in the May 2009 Financial Plan.
- More recent Council on Revenues forecast: the FY2010 growth rate was revised downward to 0% from a growth rate of 1.34% in the May 2009 Financial Plan, based on more recent forecast at the State level published by the Council on Revenues in July 2009. Growth rates for all subsequent years remain the same as in the May 2009 Financial Plan.

The impact of these two changes led to an increase in net GET surcharge revenues of \$208 million over the period through FY2023. The chart below illustrates the difference in GET forecast between the two versions of the Financial Plan.

Difference in Net Get revenues Between May 2009 and August 2009 Financial Plans



This increase in revenues dedicated to the Project is expected to be sufficient to fund the increase in Project capital cost recommended by FTA and its PMOC. It is important to note that the numbers presented herein are subject to change as the Project advances through the development process and economic conditions evolve. The revised Financial Plan provides more information on underlying assumptions and risks and uncertainties inherent to the capital and operating plan.

From: Ryan, James (FTA)
Sent: Tuesday, August 25, 2009 7:17 AM
To: B-L
Subject: FW: Email to Tahir Nadeem of 7/15/2009

Expires: Sunday, August 23, 2009 6:00 AM

Attachments: NadeemEmail.pdf

B-L

We got the e-mail below from the leading rail opponent in Honolulu. You are no doubt looking at the same numbers but I'm passing this along to ensure that we're prepared to answer all arguments when we are done with the assessments we need to decide on Honolulu's PE-request.

Thanks.

Jim

From: B-L [mailto:james.ryan@hawaii.gov]
Sent: Thursday, August 20, 2009 12:19 PM
To: Ryan, James (FTA); Day, Elizabeth (FTA); Rogers, Leslie (FTA); Nguyen, Kim (FTA); Luu, Catherine (FTA); Carranza, Edward (FTA); Welbes, Matt (FTA); tahir.nadeem@fta.dot.gov
Subject: Email to Tahir Nadeem of 7/15/2009

 HonTrafLtrHd.jpg

All of you were copied on an email dated 7/16/09 that we obtained from FTA through a FOIA request. The email is from a redacted source (assumedly at DTS Honolulu) regarding GET Revenue Forecasts. A copy of the email is attached.

We believe this email to be misleading since although it was written on 7/15/09 it omits any mention of the Council on Revenues forecast update of 5/29/09, which significantly reduced COR's earlier March 2009 forecast for GE Tax collections.

While the City says that the "GET – Scenario based on Council on Revenues Growth Rates" (p. 5-2) the fact is that only for the years FY2009/10 did the City follow the March 2009 COR projection. The differences between the City percentages used in the May 1, 2009 Financial Plan for 2011 through 2015 and those forecast by the Council on Revenues in March are markedly different as may be seen from the table below.

The following table compares the COR forecast for March 2009 and May 2009 (available at http://www6.hawaii.gov/tax/a9_1cor.htm) with that of the City's 5/1/09 Financial Plan.

Fiscal Year	COR 3/13/09	COR 5/29/09	City's 5/1 Plan
2009	-5.5%	-10.4%	-5.6%*
2010	1.0%	-2.9%	1.3%
2011	4.6%	3.1%	6.5%
2012	3.2%	1.9%	6.7%
2013	6.0%	5.0%	9.1%
2014	6.2%	5.3%	5.8%

2015	4.0%	3.0%	5.0%
------	------	------	------

* The -5.6% results from using \$161 million for 2008 collections (p. 2-6) rather than the true figure of \$169 million. Using \$169 million results in -10.1% and is close to the 5/29 COR forecast. For details see the notes to the table below.

While the 7/15 email, and Appendix E of the Financial Plan if refers to, goes into enormous detail, replete with regression analyses, to justify a supposed swift economic revitalization of Hawaii, that is not what the Hawaii State Council on Revenues forecasts. The COR consists of the State's leading private and public economists and its forecasts are relied upon by the Governor and the Legislature in fiscal decisions and in planning our economic future.

The prudent forecaster would use the COR revenue forecast for 2010-2015 and then the use the City's own 5/1/2009 Financial Plan forecast for percentage growth for 2016-2023 as shown in the table below. It results in a further \$477 million shortfall in addition to the \$554 million that the City admits to in the May 1, Financial Plan.

Calculations of City collections of the ½ percent General Excise tax increase				
	City 5/1/2009 Financial Plan as submitted		City 5/1/2009 Financial Plan Revised using 5/29 COR Forecast	
Fiscal Year	Annual GET Revenues	Annual percent change	Annual percent change	Annual GET revenues
2007	**\$13			***\$48
2008	**\$161			***\$169
2009	\$152	-10.1%	-10.4%	\$152
2010	\$154	1.3%	-2.9%	\$148
2011	\$164	6.5%	3.1%	\$152
2012	\$175	6.7%	1.9%	\$155
2013	\$191	9.1%	5.0%	\$163
2014	\$202	5.8%	5.3%	\$171
2015	\$212	5.0%	3.0%	\$177
2016	\$222	4.7%	4.7%	\$185
2017	\$233	5.0%	5.0%	\$194
2018	\$246	5.6%	5.6%	\$205
2019	\$260	5.7%	5.7%	\$217
2020	\$274	5.4%	5.4%	\$228
2021	\$289	5.5%	5.5%	\$241
2022	\$304	5.2%	5.2%	\$253
2023	\$238	N/A	5.0%	\$199
Total	\$3,490			\$3,057

*Note: Percent changes in Excise tax collection for 2010-15 according to the Council On Revenues forecast. Percent changes for 2016-2022 are the same as those used in the City 5/1/2009 Financial Plan. For FY2023 we allowed a 5 percent increase and then used 75 percent of annual forecast for the half fiscal year per the City's methodology.

**Note: GET surcharge revenues of \$13 million was reported for FY 2007 in the Draft EIS; \$161 million

From: Ryan, James (FTA)
Sent: Friday, August 28, 2009 2:37 PM
To: B-6
Subject: FW: additional questions regarding Honolulu HCT financial plan

Attachments: pastedGraphic.tiff

We have another status update this afternoon and I'm sure I'll be asked about progress and completion of the financial review. I haven't seen a reply to the questions you posed to Toru; so you probably haven't either. I'm planning to say that the ball is in the City's court and that your completion of the review depends on when they get back to you and what they have to say. Do you have any revisions to that characterization?

Thanks.
 Jim

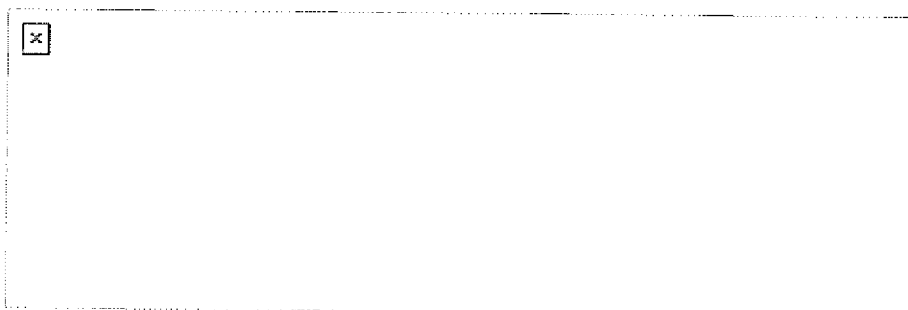
From: B-6
Sent: Wed 8/26/2009 4:15 PM
To:
Cc: Ryan, James (FTA);
Subject: additional questions regarding Honolulu HCT financial plan

Dear B-6

I appreciate the County's quick response to my questions that were e-mailed on 8/18.

I have a few additional questions, listed below, to which I would appreciate your prompt attention.

1. Regarding the HCT GET surcharge revenue forecast, the financial plan text states that the current forecast is consistent with that of the Council on Revenues (COR). However, when I reviewed both the March forecast and August forecast of the COR, their year-to-year growth rates in state-level GET revenues are consistently lower than I calculate from the HCT GET surcharge forecast included in your August 2009 financial plan submittal. The table below shows a comparison of the most recent HCT and COR forecasts for fiscal years 2010-2015. From an examination of State and Honolulu County historical revenues, I find that the State and Honolulu GET revenues are highly correlated, so I would expect that the HCT GET revenue forecast would more closely match the COR forecast, if in fact they are consistent. Would you please explain how the HCT GET surcharge forecast is "consistent" with the COR forecast, and also why the annual growth rates are different?



was reported for FY 2008 in the DEIS and 5/1/2009 Financial Plan.

***Also note that the correct FY2007 and 2008 collections are \$48 and 169 million per the City's financial statements at: <http://www.co.honolulu.hi.us/budget/cafrhnl2008.pdf>

2. The plan states that Phase 1 of the Project will be 100% locally funded. Please provide annual capital costs, net of financing, for Phase 1. Do you intend that Phase 1 not be part of the FFGA? If Phase 1 is part of the FFGA, then on what basis would Section 5309 New Starts funds be applied to it?
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4. The plan assumes \$500 million in short-term financing. What kind of approval is required? How is this debt to be secured? If it is to be secured by the HCT GET surcharge, is it to be subordinate to the other debt to be issued for the Project?
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6. Please provide the annual revenue vehicle hours to be operated on the fixed guideway system.

Thank you for your consideration. Please feel free to call me if you have any questions.

best regards.

B-6

090828 1522 Re additional questions regarding Honolulu HCT financial plan.txt
From:
Sent: Friday, August 28, 2009 3:22 PM
To: Ryan, James (FTA)
Subject: Re: additional questions regarding Honolulu HCT financial plan

Yes, that is my guess, but there is one potential sticking point. I think the main point of interpretation will be whether to assign a Medium-Low or Low rating to the capital financial capacity/planning assumptions subfactor. To get a Medium-Low rating, they would need to access another \$535 million (10% of Project costs). I am assessing this risk but haven't come to a conclusion. It is a potential problem. Let me know if you need more information at this point and I will tell you what I am considering.

B-L

On Aug 28, 2009, at 11:54 AM, <James.Ryan@dot.gov> <James.Ryan@dot.gov> wrote:

> Thanks, . Are you still guessing that "medium, with concerns" is
> the likely rating outcome?

>

>

>

> From:

> Sent: Fri 8/28/2009 2:46 PM

> To: Ryan, James (FTA)

> Subject: Re: additional questions regarding Honolulu HCT financial
> plan

>

>

> I think you've characterized it correctly, except that I still plan
> to submit a draft assessment on 9/1 (Tues.). If I get their
> responses by then, I'll incorporate them. If they come later, I'll
> modify the draft. Most probably, their responses will affect some of
> the details presented in the assessment, but are not likely to affect
> the rating.

> best regards,

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> On Aug 28, 2009, at 11:37 AM, <James.Ryan@dot.gov> wrote:

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> Thanks.

> Jim

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To:

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6. Please provide the annual revenue vehicle hours to be operated on the fixed guideway system.

Thank you for your consideration. Please feel free to call me if you have any questions.

090828 1522 Re additional questions regarding Honolulu HCT financial plan.txt

best regards,

B-6

From: Ryan, James (FTA)
Sent: Wednesday, August 19, 2009 9:52 AM
To:
Subject: RE: Honolulu

: I am back from a short vacation / long weekend and am in the office this morning. I have a conference call at 11:30am and have to leave at 1:15pm for a meeting outside the building for the rest of this afternoon. I'm open all day tomorrow. So, either now, or 12:15pm or anytime tomorrow. Let me know. Jim

From
Sent: Tuesday, August 18, 2009 9:03 PM
To: Ryan, James (FTA)
Subject: Fwd: Honolulu

Jim:

Could you please respond to the issues noted below? I am particularly concerned about item #1 -- I don't want to contact the City of Honolulu about it until I know FTA's position.

thanks,

Begin forwarded message:

From:
Date: August 14, 2009 1:50:54 PM PDT
To: Jim Ryan <James.Ryan@dot.gov>
Cc: Brian Jackson <brian.jackson@dot.gov>,
Subject: Honolulu

Jim:

I had planned on calling you but I do not have your direct number.

I've completed a first pass at the Honolulu financial plan. I think their rating will most likely be a repeat of last year; that is, an overall rating of Medium. This doesn't mean they aren't without some challenging and potentially serious problems -- just not enough to nudge the project below the thresholds for a Medium rating for entering PE.

There are some issues with the financial plan, however, and I will need to request additional information from the City and/or PB. I will send a list to Mark Scheibe on Monday.

There are several things that I need your advice or direction on, in order of priority:

1) The financial plan says that Phase 1 of the project will be 100% locally funded. Does that mean it is not part of the Federal project? If so, their cash flow needs to be segregated to distinguish Phase 1 financing from the rest of the project to which the Section 5309 New Starts funds will be applied. PLEASE RESPOND TO THIS BY MONDAY so I can include this request in the list of items I send to Mark.

2) I need a copy of the July 2009 PMOC report that assessed the project cost estimate and schedule.

3) Has anyone reviewed the O&M costs? If so, I'd like to see a copy of the report.

Thanks, and have a good weekend.

regards,

[Faint, illegible handwritten text]

From:
Sent: Monday, August 28, 2009 10:12 PM B-6
To:
Cc:
Subject: RE: additional questions regarding Honolulu HCT financial plan

Importance: High

Attachments: HNL FG Revenue Hours.xls

Our responses are noted below in red. The attached spreadsheet addresses question 6.

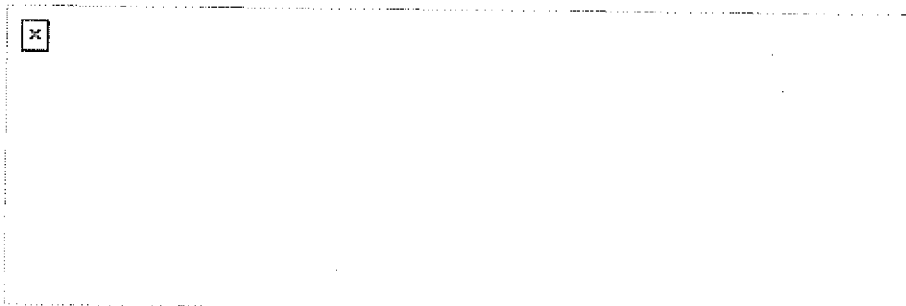
B-6

From:
To:
Cc: Jim Ryan ; B-6
Sent: Wed Aug 26 16:15:15 2009
Subject: additional questions regarding Honolulu HCT financial plan
 Dea

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I have a few additional questions, listed below, to which I would appreciate your prompt attention.

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As noted on Page 2-5 of the August 2009 Financial Plan, growth rates consistent with the Council on Revenues were assumed only for FY 2010 (the May 1, 2009 Financial Plan assumed growth rates

consistent with the Council on Revenues for FY 2009 and FY 2010; the FY 2009 revenue in the August plan is actual). As described on Page 2-6, Oahu specific growth rates were developed for use in FY 2011 through FY 2023. The GET surcharge revenue forecasts presented in the financial plan also explicitly include the GET surcharge revenue generated by Rail Transit project expenditures. Excluding project-generated GET surcharge revenue, the FY 2009 receipts by the City equal 163.64 million, while the FY 2010 receipts by the City equal 163.04 million, a 0.4% decline.

2. The plan states that Phase 1 of the Project will be 100% locally funded. Please provide annual capital costs, net of financing, for Phase 1. Do you intend that Phase 1 not be part of the FFGA? If Phase 1 is part of the FFGA, then on what basis would Section 5309 New Starts funds be applied to it?

While the first construction phase will likely be mostly locally funded (no FFGA until 2011), the City intends to request a letter of no prejudice for that segment. The FTA is aware of this. Therefore the first phase of the project would not be excluded from FFGA and 5309 funds would apply to the whole Project.

3. Are the bonds to be issued for the Project general obligation bonds or "self-supporting" bonds? If the latter, can you provide an example of similar bonds issued by Honolulu that did not require a debt service reserve or a minimum debt service coverage ratio for the issuance of additional bonds? Do you anticipate the HCT GET surcharge revenues to be pledged as a credit for the bonds?

The bonds are structured as GO bonds that are supported by the full faith and credit of the City. They are, however, considered as self-supported bonds for the purpose of the City's affordability guidelines. These two nomenclatures are not mutually exclusive. Examples of other self-supported GO Bonds include GO Bonds issued for certain sewer projects, solid waste projects, housing projects or H-Power waste-to-energy project.

4. The plan assumes \$500 million in short-term financing. What kind of approval is required? How is this debt to be secured? If it is to be secured by the HCT GET surcharge, is it to be subordinate to the other debt to be issued for the Project?

The City and County of Honolulu already has a short term financing program in place in the form of tax exempt commercial paper currently capped at \$250 million. The \$500 million in short term debt assumed for the Project could be an extension of that plan or could represent an access to a line of credit or other short-term financing mechanisms, including grant anticipation notes. The short term debt is assumed to be rolled over until ultimately being refinanced into longer term debt which is backed by GET surcharge revenues. We fully intend to continue working with the Department of Budget and Fiscal Services as the Project advances to ensure that the financing structure represents a solution that meets the City's overall financial policies.

5. The plan assumes that 33% of bus and HandiVan capital costs will be funded from Section 5309 Bus grants. What is the basis for this assumption?

The assumption used work done in the Alternatives Analysis that showed the amount received from 5309 for bus discretionary to be about \$6.25 million a year on average between 1996 and 2007. The costs identified for bus discretionary in the financial plan average about \$19.5 per year between 2010 and 2030. The 33% reflects historical revenue levels compared to future expenditures. Admittedly, allocations to Honolulu for bus acquisitions have been lower since 2007, but based on the past revenue levels, the assumptions seemed reasonable for planning purposes. This assumption will be further refined in preliminary engineering. The bottom line is that any reduction in the 5309 contribution will

increase the need for GO bonds proceeds.

6. Please provide the annual revenue vehicle hours to be operated on the fixed guideway system.

Please see attached spreadsheet.

Thank you for your consideration. Please feel free to call me if you have any questions.

best regards,

B-l

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From: ,
Sent: Tuesday, September 01, 2009 2:42 PM B-L
To:
Cc: Ryan, James (FTA);
Subject: RE: additional questions regarding Honolulu HCT financial plan

What I show is probably the "worst case" allocation of costs to Phase 1. It includes all the facilities and systems from East Kapolei to Pearl Highlands, the entire Maintenance & Storage Facility sized for the full project fleet, the entire Central Control Facility, all vehicle engineering, and a proportionate share of the vehicle fleet.

2010	142
2011	379
2012	393
2013	396
2014	257

1,567M YOES\$

From:
Sent: Monday, August 31, 2009 2:28 PM B-L
To:
Cc: Jim Ryan
Subject: Re: additional questions regarding Honolulu HCT financial plan

B-L

I suspect any response you give on this would be subject to later debate as to what exactly is Phase I -- for example, whether or how to apportion costs that are to be incurred in support of the entire line. I am copying Jim because I sense this is an issue of interest to FTA.

I really don't know what direction to give you as to what to include in Phase 1 costs. Not in my scope, so to say.

My question stems from the statement on page 1-5 of the financial plan -- "Local funding is expected to fund all aspects of the capital costs throughout the system and is expected to be the sole source of funding for Phase 1". I had imagined there was some definition of what the Phase 1 cost would be, in support of that statement. I simply want to have a reasonably accurate sense of what the City's financial obligation will be for Phase 1.

regards,

B-L

On Aug 31, 2009, at 2:03 PM, [redacted] wrote:

B-L

In order to give you what you're looking for regarding Phase 1, it'd be helpful to know how you want to be able to use the information. The fixed facility costs are reasonably straight-forward; I can give you the cost to construct the facilities from East Kapolei to Pearl Highlands. But with respect to vehicles, the City isn't seeking to purchase just enough vehicles for that segment but rather a fleet to serve the full 20-mile project. And the Maintenance & Storage Facility is being sized for the full fleet.

B-L

From: B-L
Sent: Monday, August 31, 2009 12:33 PM
To: B-L
Cc: james.ryan@dot.gov;
Subject: Re: additional questions regarding Honolulu HCT financial plan
Importance: High

B-L

Thanks for your response.

I still want to see the Phase I costs. Please send the annual estimated costs for Phase I for the period 2009 through its completion.

Also, I need clarification on the total project cost. The financial plan states that the project cost, net of financing, is \$5,120 million (Table 2-1). This total is consistent with the cash flow presented in Appendix A to the financial plan, for the period 2009-2019. The New Starts finance template you sent me shows a total project cost of \$5,348 million, with financing costs of \$290 million, so by deduction the project cost net of financing would be \$5,058 million. Thus, there is a \$62m difference between the project cost presented in the financial plan and that presented in the New Starts finance template. Please explain this difference.

thanks,

B-L

On Aug 28, 2009, at 7:11 PM, Scheibe, Mark wrote:

B-L

Our responses are noted below in red. The attached spreadsheet addresses question 6.

B-L

From:

To: B-6

Cc: Jim Ryan ;

Sent: Wed Aug 26 16:15:15 2009

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<image001.gif>

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<HNL FG Revenue Hours.xls>

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